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In This Issue

Rural Revitalization 1
Home Ownership 3
BEA Area Income 4
Computers 5
County of the Month 6
Congressional Reapportionment 7
Review and Outlook 8

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Rural Economic Revitalization: Part I
Small Business-Based Networks

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Considerable attention will be given to economic development issues during the early part of 1991 by our state's legislative and executive leaders. Particular emphasis likely will focus on rural economic revitalization. This article inaugurates a series on rural economic development. The series begins with a background review of rural economic development and a proposal for one specific option for rural economic revitalization–the formation of small business-based networks.

Issues in Rural Economic Revitalization

The business of economic development is an ongoing activity for any state or region, because economic development is a competitive business. Directly and indirectly, our nation's regions constantly are competing for business and industry.

Economic development is a competitive business that demands constant attention.

Capital and labor (people) flow to regions that are successful competitors. In contrast, resources flow from the regions that end on the losing side of this competitive game. Regional economic competition becomes more intense when a nation's population and economic growth rates are decreasing. At present, the U.S. is experiencing slowdowns in both population and economic growth.

According to preliminary reports from the U.S. Bureau of Census, 83 of Nebraska's 93 counties lost population during the last decade. These 83 counties have one basic factor in common–they tend to be rural counties. In recent years, the nation's rural counties generally have been the losers in the competitive game for business and industry.

Rural economic revitalization, no doubt, will be a major policy issue this year in Nebraska, as it should be. Rural economic revitalization is not only important to rural areas, it also is important to urban centers. Rural revitalization can produce significant economic benefits for all areas of Nebraska.

What options for economic revitalization are available to Nebraska's rural areas? There are several. One will be presented here. Others will be presented in later issues of *Business in Nebraska*.

No one option can produce total rural economic revitalization. At best, any approach only offers a potential for some revitalization. Therefore, several options need to be implemented simultaneously.

One option, based on the presence of a special infrastructure called public entrepreneurship, is the formation of enterprise networks, sometimes called federations of companies. Potentially, enterprise networks have a distinct advantage over independent businesses. Through collaborative business efforts, enterprise networks are better able to meet the challenges of constant changes in markets and technologies.

The notion of enterprise networks will be discussed more fully later in the context of rural revitalization and small businesses.

A common measure of economic revitalization is job growth. The number of nonfarm wage and salary jobs in Nebraska rose substantially during the later years of the 1980s. From 1985 through 1989, annual job growth averaged 2.1 percent. This annual rate produced approximately 55,000 new jobs for Nebraskans during the period.

Almost half of the 55,000 jobs that were added occurred in services–25,000 additional service jobs, to be exact. Because the service sector basically is people oriented, most of the job growth in services occurred in Nebraska's few urban counties.

Approximately 8,000 additional jobs were added to the manufacturing sector from 1985 to 1989. A significant number of these new jobs occurred in the state's rural counties. What is most important about Nebraska's recent job growth is not the geographic distribution of that growth, but the economic momentum job growth has produced in the state. In short, Nebraska's recent job growth has set the stage for the state to move to a phase II of economic development.

A key player in a second phase of economic development will be small

businesses, especially small businesses located in our rural areas. According to a recent Dunn and Bradstreet report, about 67,000 businesses are operating in Nebraska. These businesses vary in size from one employee to nearly 10,000 employees. Slightly over 80 percent of Nebraska's businesses employ less than 20 workers.

Nebraska clearly is a small business state. The small business nature of Nebraska especially is significant for the state's rural counties. Rural revitalization means small business growth.

Can our rural small businesses successfully compete in an economic world characterized by major shifts in technology and markets? There is good reason to believe they can. In significant ways, recent world changes in technology and markets are shifting economic opportunities from big companies to small businesses. Current changes in technology and markets are directing emphasis away from size and toward industrial organization. Let's call this phenomenon *the new age of economic competition and cooperation.*

Current world changes in technology and markets are directing emphasis away from size to industrial organization.

Several factors have led to the formation of this new age of competition and cooperation. One factor is market saturation. Increasing numbers of low cost, mass-produced products and services have become available. For many of these items, supply has outstripped demand, resulting in surpluses.

Moreover, rising incomes have shifted tastes from mass-produced goods and services to customized products and services. Customization requires the utilization of more flexible technologies. In the new emerging world of competition, competitive advantage will require the ability of businesses to get innovations off the drawing board and on the street quickly.

Businesses must capture incremental cost efficiencies, improve quality, and create new applications in the process of making the product, delivering the service, and interacting with the customer.

Small Business-Based Networking

The need to reduce the amount of time from product concept and design to customer purchase likely will promote rapid expansion in this new kind of organization called enterprise networks. Enterprise networks are federations that combine the virtues of several businesses into a network of collaborative ventures. The formation of enterprise networks may be especially beneficial to small businesses.

Robert Howard, an associate editor for *Harvard Business Review* (HBR), noted in a recent issue that "... it's not the size of a company that matters so much as the quality of the business relationships tying companies to each other." Howard further noted that "... the key unit of production is no longer the individual company, but a decentralized network of companies."

Business networks are not new. Business networks have been in existence for some time in several industrialized countries, including the U.S. Examples include Japan's supplier-group system that ties large final assemblers to small suppliers in long-term relationships of collaboration; Europe's industrial districts that involve networks of highly specialized small companies that combine state-of-the-art technology with skilled labor to produce high value-added products; and, closer to home, California's Silicon Valley that contains numerous businesses that have formed complex alliances and cooperative relationships to remain competitive.

The success of business networks indicates four important lessons for rural areas to consider:

The key unit of production is no longer the individual company, but a decentralized network of companies.

- Networks offer a new kind of competitive advantage that is not limited to any particular economic region, such as urban areas;
- Networks offer the federation of companies important economies and benefits that may not be available to individual companies, particularly if the companies are small businesses;
- Networks can create positive tension between cooperation and competition, where companies compete to join the most successful and most profitable networks; and
- Small business networks located in rural areas can compete globally, even in state-of-the-art technology niches.

Unfortunately, there is a possible down side (i.e., risk) associated with business networks. One risk involves power positioning. This risk, however, can be controlled. If a network includes both big and small businesses, the big partners may dominate the small partners. Big companies can take advantage of weaker, smaller companies–for example, by forcing small suppliers to bear the costs of downturns. The likelihood of power positioning within a federation of companies can be sizeable, particularly if the federation consists of big and small companies.

A solution is the creation of a federation of equally sized businesses. An example of a successful network of nearly equally sized, small companies is an Italian federation that produces robotics for global distribution. The network's center or lead company employs 16 workers. The lead company handles systems design, assembly and testing, and the global marketing of the final robotics. Five other local companies supply the electronic controls, machining, hydraulic components, welding, and fabrication. None of the firms has over 20 employees.

From labor's standpoint, an additional possible disadvantage of networks is reduced job security. Loosely formed federations that have not established long-term relationships could cause job insecurity. Job insecurity more likely relates to changes in a product's life cycle and production technologies, however, than to the formation of business networks. In fact, it is conceivable that business federations or networks could stabilize, rather than destabilize, job security. The relationship between job security and the dynamics of the market place will be a topic for a later issue.

In summary, the formation of small business-based federations or networks is one option available to rural areas for

economic revitalization. But these networks will not form automatically. The state first must develop an infrastructure of public entrepreneurship.

In the new emerging world of competition where greater importance will be given to industrial organization rather than to firm size, an infrastructure of public entrepreneurship will be as important as today's highways or telecommunications systems are for economic development.

Most of the components necessary to build an infrastructure of public entrepreneurship already exist in the state. They simply need to be interrelated in a manner that will stimulate the formation of businesses networks.

An article titled "A Model of New Nebraska Industry," which appeared in the February 1989 issue of Business in Nebraska, lists a number of existing government and educational activities that could form the basis of this special infrastructure.

Consumer Price Index—Escalator Provisions

The Consumer Price Index (CPI) is the most commonly accepted measure of inflation in the U.S.; therefore, it is used widely to adjust payments affected by general price changes in the marketplace. The U.S. Department of Labor, Bureau of Labor Statistics (BLS) recently surveyed CPI users and found that over 75 percent employ the CPI to adjust payments.

Some of the most common uses of the CPI in the private sector involve long-term rental contracts, collective bargaining agreements, alimony payments, and insurance policies with automatic inflation protection. In the public sector, Social Security benefits are tied to the CPI, as is the food stamp program of the U.S. Department of Agriculture. Retirement benefits for the military and federal civil service employees are based on the CPI.

BLS recently released a report that provides a guide on how to use the CPI for calculating cost adjustments due to price increases. A personal copy of this guide, entitled *Using the Consumer Price Index for Escalation*, Report 761, may be obtained by contacting the U.S. Department of Labor Bureau of Labor Statistics, Washington D.C. 20212.

Merlin W. Erickson

Nation's Home Ownership Rate Down From 1980

The U.S. home ownership rate declined from 66 percent in 1980 to 64 percent in 1989, according to a report released by the Commerce Department's Bureau of the Census. Home ownership rate is the percent of total occupants who own their home. Total occupancy consists of owners and renters.

Rates in the Northeast and West were consistently lower than the national rate over the decade. The Northeast was the only region with a higher home ownership rate in 1989 than in 1980.

Rates among states in 1989 ranged from 52 percent in New York to nearly 75 percent in West Virginia.

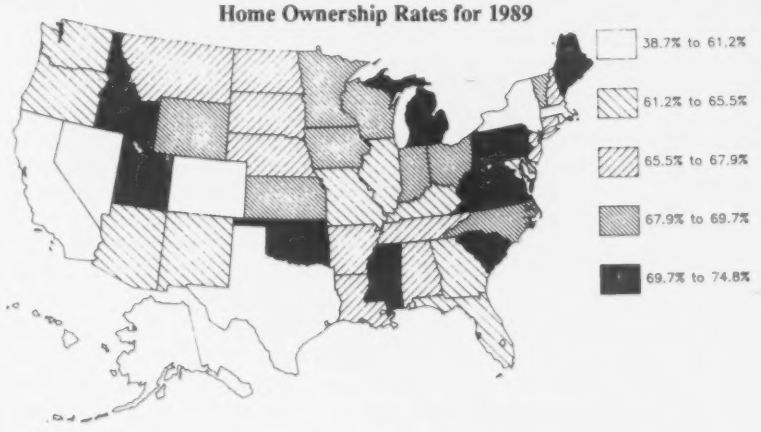
Rates declined in 16 states and increased in ten states from 1984, the year when home ownership data became available by state. In the Northeast, 1989 rates in New Jersey, New York, Pennsylvania, and Vermont were higher than 1984 rates. Massachusetts saw a decline.

Indiana, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota experienced a significant decline in home ownership from 1984 to 1989. Ohio and Wisconsin were the only Midwestern states with a significant increase.

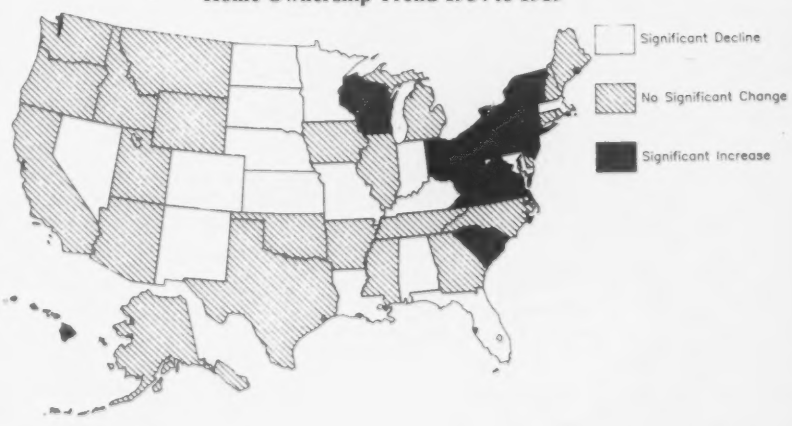
In the South, Alabama, Florida, Kentucky, Louisiana, and Maryland had a significant decline. South Carolina, Virginia and West Virginia increased.

Home ownership rates declined in Colorado, Nevada, and New Mexico. The only state in the West to record a significant increase from 1980 to 1989 was Hawaii.

Home Ownership Rates for 1989



Home Ownership Trend 1984 to 1989



David DeFruiter

Projected Per Capita Income for Selected BEA Economic Areas

Merlin W. Erickson, Research Associate, Bureau of Business Research

A popular measure of economic well-being is per capita income. The Bureau of Economic Analysis (BEA), U.S. Department of Commerce, estimates personal income for the nation as well as for smaller geographic areas. Per capita personal income is derived by dividing the total personal income of an area by the total number of area residents.

Total personal income is the sum of income from all sources, including wages and salaries, transfer payments, proprietors' income, and rental, dividend, and interest income less personal contributions for social insurance. Personal income is measured before the deduction of personal income taxes. Thus, per capita income of an area is the average income for every individual.

The preceding issue of *Business in Nebraska* (December 1990) contained an article about the per capita income ranking of metropolitan statistical areas (MSAs) in an eight state area that includes Nebraska. These rankings were for 1988 and 2000. BEA delineates economic areas as well as MSAs. BEA's definition of an economic area is an economic node–a MSA or similar area that serves as the center of economic activity–plus the surrounding counties that economically are tied to the center. BEA has identified 183 economic areas for the nation.

Of direct interest to Nebraskans, BEA has classified the state's 93 counties into five different economic areas. (See figure on this page.) BEA's economic area 103 contains 11 Nebraska counties, eight Iowa counties, and four South Dakota counties; economic area 143 includes nine counties in Nebraska and 11 counties in Iowa; economic area 145 is composed of the Nebraska Panhandle (11 counties) plus one county in Wyoming; and areas 142 and 144 contain only Nebraska counties.

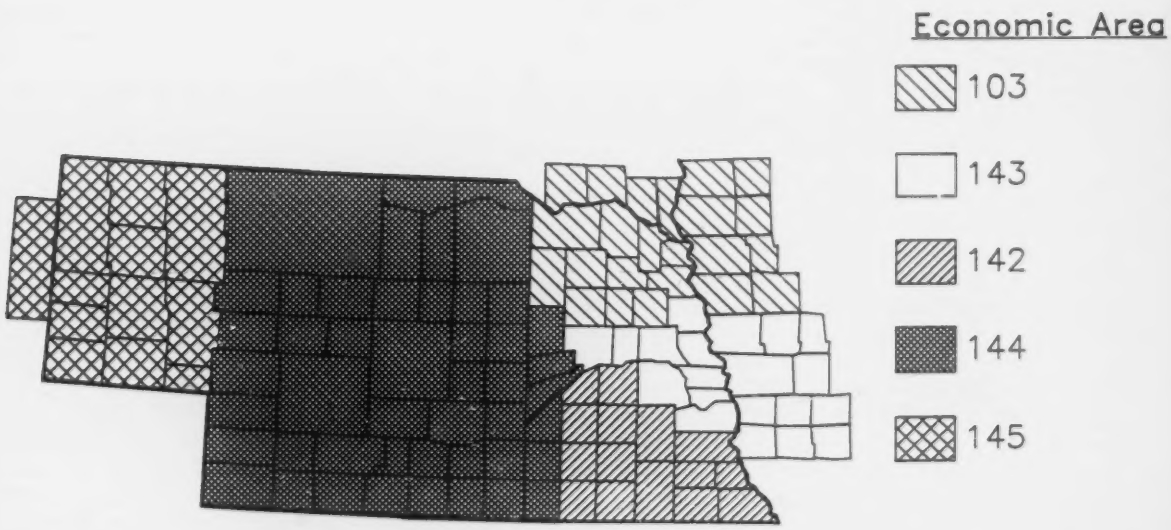
The table on this page presents per capita income figures for 1988 and 2000 for five BEA economic areas and the U.S. The per capita income figures presented in the table are expressed in constant dollar terms for 1982. Also shown are the rankings of these economic areas among the nation's 183 economic areas. All regions that contain Nebraska counties are projected to be below the national average per capita personal income.

For more information, the reader is referred to an article that appeared in the November issue of the *Survey of Current Business*, a publication of BEA.

Per Capita Income Estimates and Projections for BEA Economic Areas (1982 dollars)

BEA Economic Area No.	1988 Per Capita Income	2000 Per Capita Income	2000 Rank in U.S.
103	$10,610	$12,730	110
142	11,801	14,365	52
143	12,236	14,696	43
144	11,454	13,475	76
145	11,415	13,517	73
U.S.	13,245	15,345	

BEA Economic Areas



Computers : The Silent Worker in Business

Kai Hin Lim, Graduate Research Assistant, Bureau of Business Research

Introduction

The electronic computer has become an integral part of today's business world. Even in the early 1980s, survey information showed that the typical business could not manage more than about 9 percent of its normal operations after 11 days without the use of computers. Electronic computers have changed the way businesses function and the way consumers behave.

Some Early Developments

Until the 1950s, almost all data processing was done manually. Paper, pen, and pencil were the principal tools used for business record keeping.

Before the advent of the electronic computer, record keeping was labor intensive and subject to numerous entry errors. Moreover, the great length of time required to manually record information often resulted in a lack of sufficient and timely information for decision-making purposes.

During the last 40 years, computer technology has advanced significantly. Today's six pound laptop computer can perform at 30 times the speed of the twenty ton giants of the 1940s. The phenomenal advances made in computer technology over the last four decades can be summarized this way: If the automobile industry had done what the computer industry has done, a Rolls Royce would cost $2.50 and get two million miles per gallon.

A recent development in the use of personal computers in the office environment is computer networking. Networking allows businesses to link software and peripheral computer equipment (such as printers and data storage devices) to any number of individual PCs. Through a network system, microcomputers also can serve as an electronic mail system. Finally, network systems can be used to link microcomputers to mini or mainframe computers, where the mini or mainframe computers serve as major data storage centers.

Some Further Developments

No one knows exactly what the future holds in the way of computer and software developments. A look at some recent developments in computer technology and software systems provides some clues about how computers likely will be used in the business world in the future. Several recent developments are particularly noteworthy: expert systems, group decision support systems, multimedia systems, and information partnerships.

Expert Systems

An expert system is a computer system that attempts to replicate the work of a human expert by capturing and incorporating the knowledge of an expert into a computer system. Human experts make decisions and recommendations, such as what company strategy to follow; which bank loans to approve; or what temperature adjustments to make in a manufacturing plant.

Expert systems have been used in the academic and research worlds since the early 1960s. Such systems did not enter the business world until the 1980s.

Many of today's large commercial banks have developed expert systems to simulate the experience and professional judgment of top loan officers. A loan officer approves or rejects a loan application based on the credit history of the applicant and the risk involved.

In addition, a good loan officer uses his or her sixth sense. The sixth sense is the loan officer's qualitative assessment of risk. Expert systems are capable of capturing both quantitative and qualitative factors used by successful loan officers. With the use of such expert systems, junior loan officers are capable of performing at senior loan officer levels.

The potential benefits that expert systems offer businesses are enormous. Expert systems allow relatively inexperienced workers to perform at high levels, can operate without interruption, and can be used to train inexperienced workers. Given the potential benefits that expert systems offer businesses, we should see considerable growth in business applications in the near future, especially in the area of worker training.

Group Decision Support Systems

A group decision support system (GDSS) is a computer system that supports a group of individuals engaged in a decision-making process. Other terms or phrases used to refer to such computer systems are groupware, electronic meeting support systems, electronically supported communities, and computer-mediated communications. GDSS provides considerable flexibility in group decision-making settings by permitting interaction among participants across time and space.

In the 1980s, GDSS was still in the laboratory stage. IBM recently has marketed a GDSS program called TeamFocus. TeamFocus supports group meetings in a centralized location, called a decision room. The system accommodates individual computer terminals for participants in the decision room. One member of the group (either the group leader or a staff member acting as a chauffeur) operates the software needed to create the public projection screen.

Group members participate in the meeting by typing responses or notes via the keyboard at their terminal. They either can send their input directly to the public screen or retain the information for later use. The system can summarize information from the individual participants for screen display to all participants in the decision room. It also can be used for brainstorming sessions and confidential voting sessions.

One of the important potential benefits of GDSS is anonymity. Participants can express their opinions freely without jeopardizing their positions. Also, group members can access privately any piece of information in the system before giving a public response.

Many different GDSS types are possible because GDSS can accommodate any length of time to complete the decision-making process. GDSS also allows for participant interaction from any number of location sites.

Multimedia Systems

Computer systems traditionally have handled mainly numeric data and text. Because decision makers, analysts, and researchers have to deal with all forms of information (such as voice, graphics, images, animations, etc.), we can expect

to find several multimedia systems on the market soon. CD-ROM (compact disk-read only memory) likely will play a significant role in multimedia systems. Multimedia systems need large amounts of storage space for different kinds of graphics, images, sounds, etc. A CD-ROM disk can store the equivalent of 500 high density floppy disks of data.

Several major software vendors have started to move toward multimedia systems to improve the ease of learning and use of their systems. Lotus Development Corporation, for example, recently introduced an interactive demonstration tool for users of Lotus 1-2-3 Release 3. The system allows the user to work through the spreadsheet with the assistance of video images and sound.

The system projects high resolution photographs on the monitor. A narrator describes the problem to be solved with occasional background music. The system allows the user to select various options. The narrator details the pros and cons of each option selected. The combination of picture, music, and narrative simulates a realistic, but relaxed, learning environment.

Analysts believe that multimedia systems have strong potential for business presentation and personnel training. The combined use of graphics, images, and sound with traditional text and data can increase retention and understanding.

Information Partnership

The term *information partnership* refers to an agreement between two or more independent organizations to share information from individual customer databases.

An excellent illustration of a company currently using information partnership is Baxter Healthcare (formerly American Hospital Supply). Baxter Healthcare is a major medical equipment and health care supplier. To compete with other suppliers, Baxter established a direct electronic order network with hospitals.

Computer terminals were installed in hospitals served by Baxter, and each terminal was connected to the customer order network. Information on Baxter's prices etc. for the supplies are available on the system. When the inventory of any medical or equipment item is low, the individual in charge of inventory simply notifies Baxter Healthcare by entering the serial number of the item into the computer.

Considerable time and resources are being saved by the system because no paper order is transmitted, no delivery schedule is required, and all major inventory control problems have been eliminated. Through this computer system arrangement, hospitals on the system not only are able to reduce inventory stocks, but also are able to eliminate a considerable amount of paperwork. At the same time, the new system provides Baxter with a locked-in customer market.

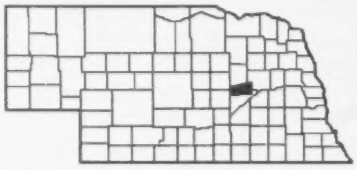
American Airlines and Citibank also have formed a data-sharing partnership. Under their agreement, for every purchase dollar that a Citibank cardholder charges to his or her card, one bonus mile is credited to the cardholder's mileage program with American Airlines. The formation of this partnership has increased customer loyalty for American Airlines. At the same time, Citibank has gained access to a new, low risk customer base.

Recently, this partnership was expanded to include MCI, a long distance phone company. Long distance phone charges with MCI add bonus miles to the customer's free mileage account with American Airlines. Companies participating in information partnerships can create joint marketing programs. They can take advantage of new channels of distribution and operational efficiencies.

It is expected that more companies, small and large, soon will become part of some kind of information partnership. Some experts even have stated that companies that do not develop partnership arrangements in the near future stand a high risk of losing significant market shares in the long run.

County of the Month

Nance



Fullerton--County Seat

License plate prefix number: 58

Size of county: 448 square miles, ranks 80th in the state

Population: 4,400 (estimated) in 1988, a change of -7.5 percent from 1980

Median age: 33.6 years in Nance County, 29.7 years in Nebraska in 1980

Per capita personal income: $12,998 in 1988, ranks 70th in the state

Net taxable retail sales ($000): $14,884 in 1989, a change of 0.9 percent from 1988; $12,896 from January through September 1990, a change of +14.8 percent from the same period one year ago

Number of business and service establishments: 108 in 1988; 63.9 percent had less than five employees

Unemployment rate: 2.7 percent in Nance County, 3.1 percent in Nebraska for 1989

Nonfarm employment (1989):

	State	Nance County
Wage & salary workers	705,672	920
	(percent of total)	
Manufacturing	13.4%	1.0%
Construction and Mining	3.6	1.2
TCU	6.5	9.1
Retail Trade	18.5	12.9
Wholesale Trade	7.6	15.5
FIRE	6.8	5.5
Services	23.7	20.2
Government	19.9	34.6

Agriculture:

Number of farms: 508 in 1987, 478 in 1982

Average farm size: 489 acres in 1987

Market value of farm products sold: $41.2 million in 1987 ($81,130 average per farm)

Sources: Bureau of the Census, BEA, Nebraska Departments of Labor, Revenue

Merlin W. Erickson

Reapportionment Will Shift 19 Seats in the U.S. House of Representatives

The population of the United States counted in the 1990 census is 249,632,692, an increase of 10.21 percent since the 1980 census. These figures and final population counts for the 50 states and the District of Columbia were released by U.S. Secretary of Commerce Robert A. Mosbacher.

Mosbacher also released the official apportionment of the 435 seats in the U.S. House of Representatives. A total of 19 seats will be shifted as a result of the 1990 census. The table below shows 1990 apportionments and changes from the 1980 apportionment.

Eight states will increase their number of representatives in the 103rd Congress, which will convene in January 1993. California will gain seven seats, Florida will increase four seats, and Texas will gain three seats. Arizona, Georgia, North Carolina, Virginia, and Washington each will gain one seat.

Thirteen states will have fewer representatives in 1993. New York will lose three seats. Illinois, Michigan, Ohio, and Pennsylvania each will lose two seats. Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Montana, New Jersey, and West Virginia each will lose one seat.

The apportionment population includes the population of the 50 states plus the overseas military and other overseas federal workers and dependents not in the United States on April 1, 1990.

David DeFruiter

Apportionment of the U.S. House of Representatives

	Apportionment Population	Apportionment Based on the 1990 Census	Change From 1980 Apportionment		Apportionment Population	Apportionment Based on the 1990 Census	Change From 1980 Apportionment
U.S. Total*	249,022,783	435		Montana	803,655	1	-1
Alabama	4,062,608	7	-	Nebraska	1,584,617	3	-
Alaska	551,947	1	-	Nevada	1,206,152	2	-
Arizona	3,677,985	6	+1	New Hampshire	1,113,915	2	-
Arkansas	2,362,239	4	-	New Jersey	7,748,634	13	-1
California	29,839,250	52	+7	New Mexico	1,521,779	3	-
Colorado	3,307,912	6	-	New York	18,044,505	31	-3
Connecticut	3,295,669	6	-	North Carolina	6,657,630	12	+1
Delaware	668,696	1	-	North Dakota	641,364	1	-
Florida	13,003,362	23	+4	Ohio	10,887,325	19	-2
Georgia	6,508,419	11	+1	Oklahoma	3,157,604	6	-
Hawaii	1,115,274	2	-	Oregon	2,853,733	5	-
Idaho	1,011,986	2	-	Pennsylvania	11,924,710	21	-2
Illinois	11,466,682	20	-2	Rhode Island	1,005,984	2	-
Indiana	5,564,228	10	-	South Carolina	3,505,707	6	-
Iowa	2,787,424	5	-1	South Dakota	699,999	1	-
Kansas	2,485,600	4	-1	Tennessee	4,896,641	9	-
Kentucky	3,698,969	6	-1	Texas	17,059,805	30	+3
Louisiana	4,238,216	7	-1	Utah	1,727,784	3	-
Maine	1,233,223	2	-	Vermont	564,964	1	-
Maryland	4,798,622	8	-	Virginia	6,216,568	11	+1
Massachusetts	6,029,051	10	-1	Washington	4,887,941	9	+1
Michigan	9,328,784	16	-2	West Virginia	1,801,625	3	-1
Minnesota	4,387,029	8	-	Wisconsin	4,906,745	9	-
Mississippi	2,586,443	5	-	Wyoming	455,975	1	-
Missouri	5,137,804	9	-				

*Total population, not including the District of Columbia

Review and Outlook

John S. Austin, Research Associate, UNL Bureau of Business Research

National Outlook

Quibbling over whether we are in a recession has ended. Even highly placed politicians now are using the term recession to characterize the economy. A December unemployment rate of 6.1 percent, slow automobile sales, anemic retail sales, a nosedive in industrial production of 1.7 percent in November, and housing starts comparable to those of 1981-1982 make the recession obvious to all.

The continuing bank crisis and weak regional real estate markets do not bode well for sagging confidence levels. Real disposable income has been falling since the third quarter of 1990. Gross National Product (GNP) increased 1.4 percent in the quarter. When fourth quarter GNP is released later this month, it probably will show a sizeable drop in real activity.

When will the recession end? Will it be shallow and short or long and deep?

Critical to any economic forecast is the Middle East. In its latest forecast, the WEFA Group issued five scenarios–three based on peace, two on war.

Those who believe the recession will be short and shallow base their projections on several factors: oil prices have dropped from October; there likely will be no war, but some kind of peaceful settlement; inventories are in good shape and have not grown as rapidly as in past recessions; the economy is not overheated; interest rates are low and will stimulate the general economy; and oil price increases have not translated into overall rapid inflation.

Inflation reports for November showed a surprisingly low rate of growth in both the Consumer Price Index (CPI) of 0.3 percent and the Producer Price Index (PPI) of 0.5 percent. The CPI is 6.3 percent ahead of year-ago levels.

Those who believe the recession will be long and deep argue that war in the Middle East is likely and that oil prices will surge to $50 or $60 per barrel. Overall inflation will accelerate.

Table 1
National Indicators

	Annual		Quarterly (SAAR)				
	1988	1989	1989:III	1989:IV	1990:I	1990:II	1990:III
Real GNP (% change)	4.5	2.5	1.7	0.3	1.7	0.4	1.4
Real Consumption (% change)	3.6	1.9	4.6	-0.8	1.1	0.2	2.7
Housing Starts (millions)	1.5	1.3	1.3	1.3	1.4	1.2	1.1
Auto Sales (millions)	10.6	9.9	10.8	8.7	9.7	9.5	9.7
Interest Rate (90 day T-bill)	6.7	8.1	7.8	7.6	7.8	7.8	7.5
Unemployment Rate (%)	5.5	5.3	5.3	5.3	5.3	5.3	5.6
Money Supply, M2 (% change)	5.1	3.7	7.0	7.1	6.4	3.2	3.1
Industrial Production Index (1987=100)	105.4	108.1	108.1	108.1	108.3	109.4	110.4

NOTE: SAAR—seasonally adjusted at annual rates
Source: Bureau of Economic Analysis

Table II
Employment in Nebraska

	Revised October 1990	Preliminary November 1990	November % Change vs. Year Ago
Place of Work			
Nonfarm	733,997	739,449	2.8
Manufacturing	98,167	97,549	2.1
Durables	46,630	46,330	-0.6
Nondurables	51,537	51,217	4.7
Mining	1,603	1,547	1.4
Construction	26,083	25,486	3.4
TCU*	47,327	47,657	2.5
Trade	186,664	189,156	1.2
Wholesale	55,295	55,215	2.1
Retail	131,369	133,941	0.8
FIRE**	47,915	48,070	-1.1
Services	176,237	176,345	3.6
Government	150,001	153,641	5.9
Place of Residence			
Civilian Labor Force	835,910	838,304	2.0
Unemployment Rate	2.0%	1.6%	

* Transportation, Communication, and Utilities
**Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Table III
Price Indices

	November 1990	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	133.8	6.3	5.3
Commodities	126.3	6.8	5.1
Services	142.0	5.9	5.5
Producer Price Index (1982 = 100)			
Finished Goods	122.9	7.1	4.9
Intermediate Materials	117.8	5.0	2.0
Crude Materials	116.8	14.2	5.7
Ag Index of Prices Received (1977 = 100)			
Nebraska	156	0.0	3.4
Crops	106	-15.9	-8.4
Livestock	188	7.4	9.1
United States	145	-1.4	2.5
Crops	123	-3.1	-4.0
Livestock	166	0.6	7.7

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics, Nebraska Department of Agriculture

Some advocates of the long and deep recession observe that banks are becoming more conservative in their lending practices. I view this growing differential as an indication that banks are trying to improve their profitability and build their capital positions.

After the long drawn process of the budget compromise, it is unlikely that we will see a sharp increase in federal governmental spending to end this recession. There may be some increases in defense spending to support Desert Shield operations. Other areas of governmental spending are likely to remain as planned.

The Federal Reserve will be alone in its fight against a recession. The Fed has continued to lower short-term interest rates. The Federal Funds rate is now 7.5 percent, only slightly above the current rate of inflation. There is little room for the Fed to push rates much lower. Other interest rates that affect the general public have been much slower to respond. Only recently has the bank prime lending rate been lowered to 9.5 percent.

Long-term interest rates have remained fairly high. The rate of decrease in long-term interest rates does not match the decrease in short-term rates. The Fed is running out of room to operate, yet the impact of its policies on critical long-term rates has been small. The Fed alone cannot bring us out of the recession.

A key to the length of the recession will be consumer confidence. Consumers' lack of confidence is leading to substantially lower automobile sales, weakness in the retail sales market during the Christmas season, and low housing activity.

The drop in consumer confidence from August has been dramatic. According to one analyst, the size of the decrease matches the size of previous drops, only those decreases took two years to develop. Critical to revising consumer confidence are stabilization of the Middle East crisis, continuing decreases in the price of oil, decline of the overall rate of inflation, and responsible actions by government.

One strong signal from government to the consumer would be a good job handling the banking crisis. Continued efforts to correct our budget deficit also may help revise consumer confidence. Consumer confidence cannot go much lower; the issue is how we can reverse its trend.

Nebraska Outlook

The outlook for Nebraska in 1991 hinges more on agricultural markets than on the U.S. recession. Unless the U.S. recession becomes a long and deep one, Nebraska's nonfarm sector probably will continue to perform well in 1991.

Nevertheless, Nebraska sells to national as well as international markets; thus the prospects for a tailing of our growth rate are high. Nebraska farmers face the likelihood of a decrease of 15 percent to 20 percent in net farm income in 1991.

Construction in Nebraska is softening, according to F.W. Dodge. Through November on a year-to-date basis, nonbuilding construction increased 37 percent in total dollar value. Total building construction advanced 8 percent on the same basis. Overall, the increase in Nebraska's value of construction contracts was 14 percent above year-ago levels through November.

Nebraska's success in construction contrasts to a miserable year in construction on the national level. U.S. construction activity is down, due to a severe drop in residential construction. Nonresidential construction has been flat nationally, while public construction has increased.

Table IV
City Business Indicators
September 1990 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	2.9	-1.2
Alliance	1.2	380.1
Beatrice	2.4	22.5
Bellevue	1.0	-42.0
Blair	1.0	-21.1
Broken Bow	1.5	1,213.5
Chadron	12.3	-69.0
Columbus	4.4	-9.0
Fairbury	0.6	131.9
Falls City	6.7	102.4
Fremont	5.8	-45.4
Grand Island	4.2	-11.6
Hastings	4.2	150.0
Holdrege	1.8	255.9
Kearney	3.7	66.0
Lexington	6.2	-6.3
Lincoln	1.3	-14.0
McCook	1.2	-63.7
Nebraska City	-2.0	-80.7
Norfolk	8.0	-41.1
North Platte	7.9	45.9
Ogallala	7.8	30.4
Omaha	1.0	7.4
Scottsbluff/Gering	2.8	3.6
Seward	4.1	195.1
Sidney	3.1	-32.6
South Sioux City	-2.5	-33.3
York	8.6	282.9

(1)As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used

(2)Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes

Sources: Nebraska Department of Labor and reports from private and public agencies

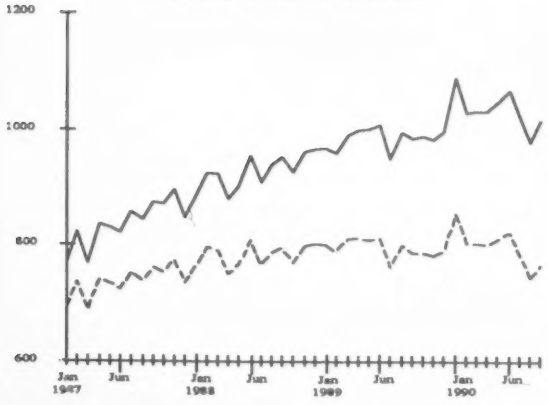
Figure I
City Business Index
September 1990 Percent Change from Year Ago

Table V
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2) September 1990 (000s)	City Sales (2) % Change vs. Year Ago	Region Sales (2) September 1990 (000s)	Region Sales (2) % Change vs. Year Ago	YTD % Change vs. Year Ago
NEBRASKA	$949,471	6.6	$1,065,535	3.5	5.1
1 Omaha	317,489	4.1	388,132	1.3	2.4
Bellevue	13,026	3.2	*	*	*
Blair	4,961	13.1	*	*	*
2 Lincoln	136,508	12.7	154,522	9.2	5.8
3 South Sioux City	6,702	5.9	8,772	5.2	25.8
4 Nebraska City	4,275	24.2	20,551	10.6	9.4
6 Fremont	17,339	9.4	31,741	3.5	7.8
West Point	3,051	0.4	*	*	*
7 Falls City	2,382	29.7	9,741	12.7	8.1
8 Seward	4,595	9.7	14,879	-2.2	7.1
9 York	7,721	28.6	16,220	13.7	4.2
10 Columbus	15,291	6.1	28,242	5.4	6.8
11 Norfolk	20,827	12.3	37,200	9.2	6.7
Wayne	3,411	23.9	*	*	*
12 Grand Island	34,161	-3.1	48,785	-1.8	2.0
13 Hastings	15,330	-3.0	24,995	-3.1	1.9
14 Beatrice	7,623	7.7	18,121	6.1	11.4
Fairbury	2,946	9.3	*	*	*
15 Kearney	20,027	11.6	28,712	6.9	4.7
16 Lexington	6,131	5.8	16,387	2.5	4.6
17 Holdrege	4,610	12.3	8,278	1.2	6.3
18 North Platte	16,754	3.4	21,436	1.0	6.6
19 Ogallala	5,738	6.8	11,413	0.1	2.8
20 McCook	7,813	7.4	11,419	4.1	6.4
21 Sidney	3,666	-1.4	7,774	-2.9	3.2
Kimball	1,868	15.3	*	*	*
22 Scottsbluff/Gering	17,778	5.2	25,366	3.1	4.5
23 Alliance	5,215	11.1	13,686	3.9	3.5
Chadron	2,937	34.0	*	*	*
24 O'Neill	4,612	14.5	15,334	8.9	7.5
Valentine	2,815	14.1	*	*	*
25 Hartington	1,569	24.8	8,941	12.3	7.7
26 Broken Bow	3,259	1.2	12,026	1.6	2.8

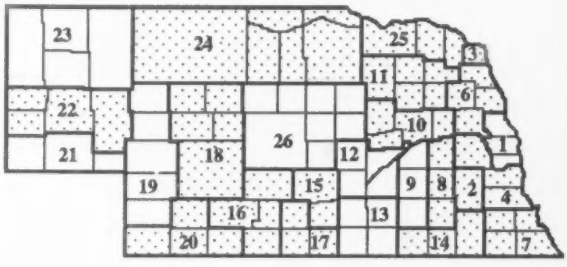
(1) See region map
(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales
*Within an already designated region
Compiled from data provided by the Nebraska Department of Revenue

Figure II
Nebraska Net Taxable Retail Sales
(Seasonally Adjusted, $ Millions)



(1) The Consumer Price Index (1982-84 = 100) is used to deflate current dollars into constant dollars. Solid line indicates current dollars; broken line indicates constant dollars

Figure III
Region Sales Pattern
YTD as Percent Change from Year Ago



Shaded areas are those with sales gains above the state average. See Table V for corresponding regions and cities

Nebraska County Profiles Available Now

This handy reference set, prepared by the Bureau of Business Research, University of Nebraska-Lincoln, contains facts and figures about agriculture, population, income, retail sales, employment, education, medical services, and recreation areas for every county in the state. A state profile is also available.

To obtain Nebraska *County Profiles*, note the number of copies in the blank next to the counties that you wish to order and send this form with a check or money order to the Bureau of Business Research, University of Nebraska-Lincoln, 200 CBA, Lincoln, NE 68588-0406.

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____Banner	____Douglas	____Keya Paha	____Saline
____Blaine	____Dundy	____Kimball	____Sarpy
____Boone	____Fillmore	____Knox	____Saunders
____Box Butte	____Franklin	____Lancaster	____Scotts Bluff
____Boyd	____Frontier	____Lincoln	____Seward
____Brown	____Furnas	____Logan	____Sheridan
____Buffalo	____Gage	____Loup	____Sherman
____Burt	____Garden	____Madison	____Sioux
____Butler	____Garfield	____McPherson	____Stanton
____Cass	____Gosper	____Merrick	____Thayer
____Cedar	____Grant	____Morrill	____Thomas
____Chase	____Greeley	____Nance	____Thurston
____Cherry	____Hall	____Nemaha	____Valley
____Cheyenne	____Hamilton	____Nuckolls	____Washington
____Clay	____Harlan	____Otoe	____Wayne
____Colfax	____Hayes	____Pawnee	____Webster
____Cuming	____Hitchcock	____Perkins	____Wheeler
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Nebraska's net taxable retail sales are shown in Table V. Total city sales for Nebraska is the state's total of nonmotor vehicle, net taxable, retail sales. In September, total city sales showed an increase of 6.6 percent over year-ago levels. Nebraska's total regional sales gained only 3.5 percent in September.

Nebraska's total regional sales is total net taxable retail sales for the state and includes total motor vehicle and total nonmotor vehicle sales. On a year-to-date basis Nebraska is 5.1 percent ahead of year-ago levels in total retail sales.

Considering that the rate of inflation is near that level, state retail sales are nearly breakeven in real terms with last year. Figure II shows a slight rebound in September retail sales on a seasonally adjusted basis. Retail sales are well below the January 1990 peak in both current and constant dollar terms.

Little is known about retail Christmas sales in Nebraska. Our impression is that total Christmas buying this year equalled last year. If we adjust the figure for inflation, we get a decrease in real terms of about 5 percent. Nebraska's retail sales reflect some of the national recession impacts.

National Christmas sales were disappointing. Without heavy pre-Christmas sales, overall retail sales would have dropped in December. Official national retail sales figures for December will be released soon.

Nebraska's unemployment rate reached 1.6 percent in November. Lincoln registered the nation's lowest rate, 1.0 percent. Unemployment statistics for the state are crude estimates; nevertheless, they reflect Nebraska's ability to create new jobs. This ability is shown in the increase in jobs of 2.7 percent for November versus a year ago (Table II). This increase continues the pattern of the last year and a half.

As the national recession unfolds, we may see some slackening of job growth and concomitant growth in unemployment in the state. Nebraska's unemployment likely will remain well below the nation's.

Nebraska's cattle on feed totalled 2,320,000 head on December 1, 1990, a 10 percent increase above last year's level. Nebraska was virtually tied with Texas. For the seven major feeding states, cattle on feed were approximately 800,000 head higher than year-ago levels. Increased supply coupled with relatively high prices for cattle imply that we may see some softening in cattle prices later this year.

State Economic Scoreboard

Change from same month one year ago
See Review and Outlook on page 8 for more details

	State	Metro+	Nonmetro
Motor Vehicle Sales (September) Constant $	-21.1%	-22.5%	-19.9%
Nonmotor Vehicle Sales (September) Constant $	0.4%	0.3%	0.4%
Building Activity (September) Constant $	-5.2%	-7.6%	-2.1%
Employment (November)	3.3%	1.0%	5.8%
Unemployment Rate* (November)	1.6%	1.6%	1.6%

+Omaha and Lincoln. *Unemployment is this month's rate, not a percent change from year ago

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